Pennington's

1979 Annual Report

PENNINGTON'S STORES LIMITED

Financial Highlights

	February 2 1980 (52 weeks)	February 3 1979 (53 weeks)
Sales	**$36,245,065**	$33,037,255
Net income after taxes	**2,645,418**	3,283,974
Earnings per share	**$.60**	$.80
Working capital	**9,111,131**	9,375,753
Working capital ratio	**5.26:1**	4.24:1
Total dividends	**1,766,148**	1,357,512
Dividends per common share	**38¢**	33.4¢
Number of stores (end of period)	**96**	87

Corporate Information

Board of Directors
Sol Armel
Donald Carr, Q.C.
William Drevnig
Albert Sherman
Jack Sherman
Mark Vansittart

Officers
William Drevnig — *President*
Albert Sherman — *Vice-President and Secretary*
Sol Armel — *Executive Vice-President*
Jack Sherman — *Vice-President*
Emanuel Asher — *Vice-President, Retail Operations*
William Farewell, C.A. — *Treasurer*

Transfer Agent & Registrar
The Canada Trust Company

Auditors
Laventhol & Horwath

Exchange Listing
The Toronto Stock Exchange
Ticker PNS

Head Office
PENNINGTON'S STORES LIMITED
40 Samor Road, Toronto, Ontario M6A 1J6
Telephone: (416) 787-4973

Annual Meeting *Thursday, June 26th, 1980, 11:30 A.M., Library Room, Royal York Hotel, Toronto.*

PENNINGTON'S STORES LIMITED

To the Shareholders

President's Message.

Last year was an extremely difficult year for most in the merchandising sector. Unseasonable weather, a high rate of inflation and disproportionately increased operating costs, particularly in occupancy charges, presented a challenge to your Company. The reluctance of manufacturers to commit for early fabric deliveries has resulted in many delivery delays and cancellations. In our endeavour to improve the flow of merchandise and help stabilize price increases, we are working more closely with our suppliers in making early fabric commitments on our behalf. Our buyers are aggressively pursuing new sources of supply with a view to continuing to improve quality and value. We expect a significant improvement in delivery of merchandise for the fall season.

In May 1979, your Company undertook the penetration of the United States market with "Pennington's du Canada". We plan to develop an organization able to attain the same success that we have enjoyed in Canada. As expected, we are experiencing some of the growing pains of a completely new venture in the development of staff acceptable to our high standards and in establishing ourselves in the marketplace. We are confident that we have the styling and marketing expertise to achieve substantial financial success in the United States. As we are relatively unknown in the U.S., our initial plan was to saturate the market with an intensive advertising campaign, which resulted in disproportionate advertising costs. In order to give our new staff the benefit of Pennington's know-how and years of experience, extensive travelling was incurred by Head Office personnel, which contributed to excessive store opening costs which were charged against income in the current year. We plan to concentrate our efforts in specific market areas in order to benefit from cost efficiencies. In this regard, we have been fortunate in acquiring some favourable lease agreements on existing locations. We are also deferring setting up a U.S. central distribution centre until this cost can be justified. A significant percentage of our Canadian-made merchandise is being sent to the United States and has been exceptionally well received. We are going to continue to support this project with our financial resources and expertise until we achieve our plan of being a factor to be reckoned with in the American large size market. This is an important investment in the future growth of your Company. With all the problems and hard work entailed in setting up in the United States, it gives us a great deal of pride to note how well we have been received by our American neighbours.

"Liz Porter", our exciting new chain of boutiques, which are geared to a young, sophisticated clientele, are performing up to our level of expectation. At year end, we had three stores in operation and, to date, have opened another two and are looking forward to further expansion.

For many years Pennington's has aggressively bought in the international market, establishing a reputation for astuteness in fabrics and fashion in our special size spectrum. Changes in currency rates, inflation and increased government regulations have added to the difficulties in securing fashion merchandise that meets our high standard of quality, styling and fit at competitive costs. We expect some levelling off in prices during the coming year.

Outlook:

We anticipate that a further decline in disposable income, coupled with continuing inflation, will result in a possible slowing of consumer buying. Although we have made our commitments for the coming year, we are being most selective in our future expansion. We are, however, confident of our ability to continue to increase our share of the market.

Appreciation:

The Company's results could not have been achieved without the loyal support of our customers, employees and suppliers. On behalf of your Board of Directors and senior management, I take this opportunity to express our appreciation for the dedication and co-operation in what was a difficult year.

William Drevnig

William Drevnig
President

Executive Vice-President's Message.

Net income for the fifty-two weeks ended February 2nd, 1980 amounted to $2,645,418 as compared with $3,283,974 for the fifty-three weeks ended February 3rd, 1979, which is the first time that the Company has had a decline in real annual earnings in eleven years as a public company. Earnings per share were 65¢, however, after deducting preference share dividends, net income per common share was 60¢. This compares with 80¢ in the prior year, in which there were no preference share dividends. Although sales were 9.7% higher than in the previous year, the continuing increase in the cost of operating our stores, the cost related to development of our U.S. operation and a loss on foreign currency translation all contributed to lower net income for the year. This loss on foreign currency translation, as compared with a gain in the previous year, represented approximately 2½¢ per share. The direct loss of our U.S. operations amounted to approximately $200,000, or 2½¢ per common share.

Working Capital:

Working capital provided by operations amounted to $3,086,553 or 76¢ per share after providing $222,208 for preference share dividends. Capital expenditure for 1979 for the opening of new stores and refurbishing of existing stores was in excess of $1,700,000, almost three times the capital expenditure in the preceding year.

The financial position of the Company remains very strong with working capital of $9,111,131 of which $4,287,858 was cash and short term investments. The working capital ratio increased to 5.26:1 from 4.24:1 in the previous year. Inventory levels have been carefully monitored and controlled throughout the year so that, with ten additional units opened during the year, our investment in merchandise inventory at year end has increased by 2% over the preceding year.

Development:

Ten new stores were opened during the year and one older location was closed. In line with our policy of updating our stores, seven locations were refurbished.

Capital expenditures for the coming year are estimated at $2,000,000 and relate to the construction of eleven new stores, refurbishing existing locations and the cost of installing a computer system.

To efficiently handle our continuing growth, we have leased an additional 24,000 square feet adjacent to our existing 50,000 square foot Head Office distribution centre. We anticipate that this area will be sufficient to cope with the increased volumes.

As at May 1980, five stores have been opened since the fiscal year end, with an additional six to be opened in the third and fourth quarter. We opened "Liz Porter" stores in Sheridan Mall, Mississauga and Shoppers' World, Brampton, a "Pennington's" store in Place Fleur de Lys in Quebec City, and "Pennington's du Canada" stores in Hawthorn Shopping Center, Vernon Hills and Oakbrook Shopping Center, Oakbrook, both in the Metropolitan Chicago area. We expect to open three additional stores in the United States and three "Pennington's" stores in Canada in the second half of the year.

2

3

Dividends:

Dividend payments made during the year under review amounted to $1,766,148 as compared with $1,357,512 in the previous year. Dividends per common share amounted to 38¢ per share as compared with 33.4¢ in the preceding year. The preference share dividend rate is 42.5¢ per share, payable quarterly. Your Board of Directors declared a second quarter dividend of 10¢ per common share, payable July 2nd, 1980, to shareholders of record June 17th, 1980.

S. Armel

S. Armel
Executive Vice-President

Statement of Income

	52 weeks ended February 2, 1980	53 weeks ended February 3, 1979
Sales	**$36,245,065**	$33,037,255
Investment income	**396,227**	331,253
	36,641,292	33,368,508
Cost of sales, selling and administrative expense	**30,810,034**	26,640,127
Depreciation	**663,740**	549,131
	31,473,774	27,189,258
Income before income taxes and undernoted item	**5,167,518**	6,179,250
Gain (loss) on foreign currency transactions	**(126,100)**	66,724
Income before income taxes	**5,041,418**	6,245,974
Income taxes (Note 4)	**2,396,000**	2,962,000
Net income for the period	**$ 2,645,418**	$ 3,283,974
Earnings per share (Note 5)	**$.60**	$.80

Statement of Retained Earnings

	52 weeks ended February 2, 1980	53 weeks ended February 3, 1979
Retained earnings, beginning of period	**$12,301,621**	$10,416,728
Net income for the period	**2,645,418**	3,283,974
	14,947,039	13,700,702
Less:		
Dividends on preference shares	**222,208**	—
Dividends on common shares	**1,543,940**	1,357,512
Premium on purchase of preference shares for cancellation	**8,532**	—
Expenses of capital reorganization less related income tax reduction of $33,000	—	35,253
15% tax paid on undistributed income	—	6,316
	1,774,680	1,399,081
Retained earnings, end of period	**$13,172,359**	$12,301,621

Balance Sheet

ASSETS	February 2, 1980	February 3, 1979
Current:		
Cash and short-term investments	**$ 4,287,858**	$ 5,424,790
Inventories	**6,285,969**	6,155,948
Prepaid expenses and sundry assets	**674,800**	688,041
	$11,248,627	$12,268,779
Fixed assets, less accumulated depreciation (Note 2)	**4,700,605**	3,578,289
Excess of cost over book value of of business acquired	**947,089**	947,089
	$16,896,321	$16,794,157

LIABILITIES		
Current:		
Accounts payable and accrued liabilities	**$ 2,012,529**	$ 2,219,504
Income taxes payable	**124,967**	492,147
Deferred income taxes	—	181,375
	2,137,496	2,893,026
Deferred income taxes	**171,800**	172,197

SHAREHOLDERS' EQUITY		
Capital stock (Note 3)	**1,414,666**	1,427,313
Retained earnings	**13,172,359**	12,301,621
	14,587,025	13,728,934
	$16,896,321	$16,794,157

On behalf of the Board:

William Greening

(Director)

S. Arnold

(Director)

Statement of Changes in Financial Position

	52 weeks ended February 2, 1980	53 weeks ended February 3, 1979
Financial resources were provided by:		
Net income	**$2,645,418**	$3,283,974
Expenses not requiring a current outlay of working capital:		
Depreciation	**663,740**	549,131
Non-current deferred income taxes	**(397)**	(30,333)
Working capital provided by operations	**3,308,761**	3,802,772
Issue of common stock for cash under employee stock option plan	—	24,750
	3,308,761	3,827,522
Financial resources were used for:		
Purchase of fixed assets (net)	**1,786,056**	609,482
Dividends paid on preference shares	**222,208**	—
Dividends paid on common shares	**1,543,940**	1,357,512
Purchase of preference shares for cancellation	**21,179**	—
Expenses of capital reorganization	—	35,253
15% tax paid on undistributed income	—	6,316
	3,573,383	2,008,563
Increase (decrease) in working capital	**(264,622)**	1,818,959
Working capital, beginning of period	**9,375,753**	7,556,794
Working capital, end of period	**$9,111,131**	$9,375,753

Auditors' Report

To the Shareholders of
Pennington's Stores Limited

We have examined the balance sheet of Pennington's Stores Limited as at February 2, 1980 and the statements of income, retained earnings and changes in financial position for the 52 weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at February 2, 1980 and the results of its operations and the changes in financial position for the 52 weeks then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Toronto, Ontario
April 17, 1980

Laventhol & Horwath
Chartered Accountants

Notes to Financial Statements

1. Significant accounting policies:

The accounting policies of the company are in accordance with generally accepted accounting principles and are applied on a consistent basis. The following is a summary of the significant accounting policies followed in the preparation of these financial statements:

(a) Inventories:

Inventories are priced at the lower of average cost and market determined by the retail method with market being net realizable value less normal profit margin.

(b) Fixed assets:

Fixed assets are stated at cost with depreciation being provided at the following annual rates:

Furniture, fixtures and leasehold improvements — 10% straight-line method

Motor vehicles — 30% reducing balance method

Profits or losses arising on the disposal of assets are included in income for the period in which the profit or loss arose. Maintenance and repair expenses are written off in the period in which the expenditure is incurred.

(c) Income taxes:

Income taxes are accounted for on the tax allocation basis. The deferred income taxes on the balance sheet reflect the cumulative effect of timing differences between accounting income and taxable income.

(d) Intangible assets:

In 1969 the company acquired the net assets of a retail business for an amount in excess of its book value. This excess is not being amortized as in the opinion of management, it has continuing value.

(e) Retirement and death benefit arrangements:

No provision is made for the cost of consultation services to be rendered in future years under the terms of the senior executive consultation agreement referred to in Note 8. The cost of such services will be charged against income in the period when such services are rendered. Provision for the cost to the company of the retirement and death benefits payable thereunder is being charged to income on a straight-line basis, commencing with the period ended February 3, 1979 to the date when it has been estimated the benefits will become payable based on current salaries.

(f) Foreign currency translation:

The company follows the current — noncurrent method for translation of foreign currency transactions. Under this method current assets and current liabilities are translated at the prevailing rate of exchange at the balance sheet date. All other assets are translated at the prevailing rate at the time of acquisition.

Revenues and expenses are translated at average exchange rates prevailing during the period except for depreciation which is translated at the prevailing rate when the related asset was acquired.

Realized exchange gains and losses and translation gains and losses (unrealized) are included in the statement of income.

2. Fixed assets:

	52 weeks ended February 2, 1980	53 weeks ended February 3, 1979
Furniture, fixtures and leasehold improvements	$7,906,162	$6,282,712
Motor vehicles	122,491	56,567
	8,028,653	6,339,279
Less accumulated depreciation	3,328,048	2,760,990
	$4,700,605	$3,578,289

3. Capital stock:

Authorized:

1,245,500 Non-voting, cumulative preference shares, without par value which entitle the holder to a fixed annual dividend of 42.5¢ per share payable quarterly.

If the company wishes to redeem these shares it may do so at a minimum rate of 5,000 shares per year at a redemption price of $5.35 on or before January 1, 1981 reducing by 5¢ per year until January 1, 1987 and thereafter the redemption price remains at $5 per share.

12,000,000 Common shares, without par value

	February 2, 1980	February 3, 1979
Issued:		
503,375 Preference shares (prior period – 507,875)	$1,414,665	$1,427,312
4,063,000 Common shares	1	1
	$1,414,666	$1,427,313

During the current period the company purchased 4,500 preference shares for cancellation at a cost of $21,179.

A total of 59,000 common shares are reserved for issue under the employee's stock option plan. Options for 10,000 shares at a price of $4.95 per share expiring May 6, 1981, are currently outstanding. As these options were granted prior to the capital reorganization which occurred on December 21, 1978, the holder is entitled to acquire one preference share for each eight common shares optioned at no additional cost.

4. **Income taxes:**

	52 weeks ended February 2, 1980	53 weeks ended February 3, 1979
Current	$2,577,677	$2,810,958
Deferred	(181,677)	151,042
	$2,396,000	$2,962,000

5. **Earnings per share:**

Earnings per common share have been calculated based on 4,063,000 common shares which were outstanding for the entire period (prior period based on weighted average of 4,062,106), after providing for the payment of preference share dividends.

6. **Long-term leases:**

Long-term leases entered into by the company for the rental of store locations and warehouse facilities extend into the year 1998. The majority of the store leases provide for payment to the lessor of a percentage of sales.

Minimum annual rentals in the subsequent five years (exclusive of amounts based on percentage rents, taxes, insurance and other occupancy charges) on leased premises in effect at February 2, 1980 are:

1981	$2,683,000
1982	2,551,000
1983	2,446,000
1984	2,395,000
1985	2,240,000

7. **Remuneration of directors and senior officers:**

Direct remuneration paid to directors and senior officers of the company during the period amounted to $473,473 (prior period – $349,535).

8. **Retirement and death benefit arrangements:**

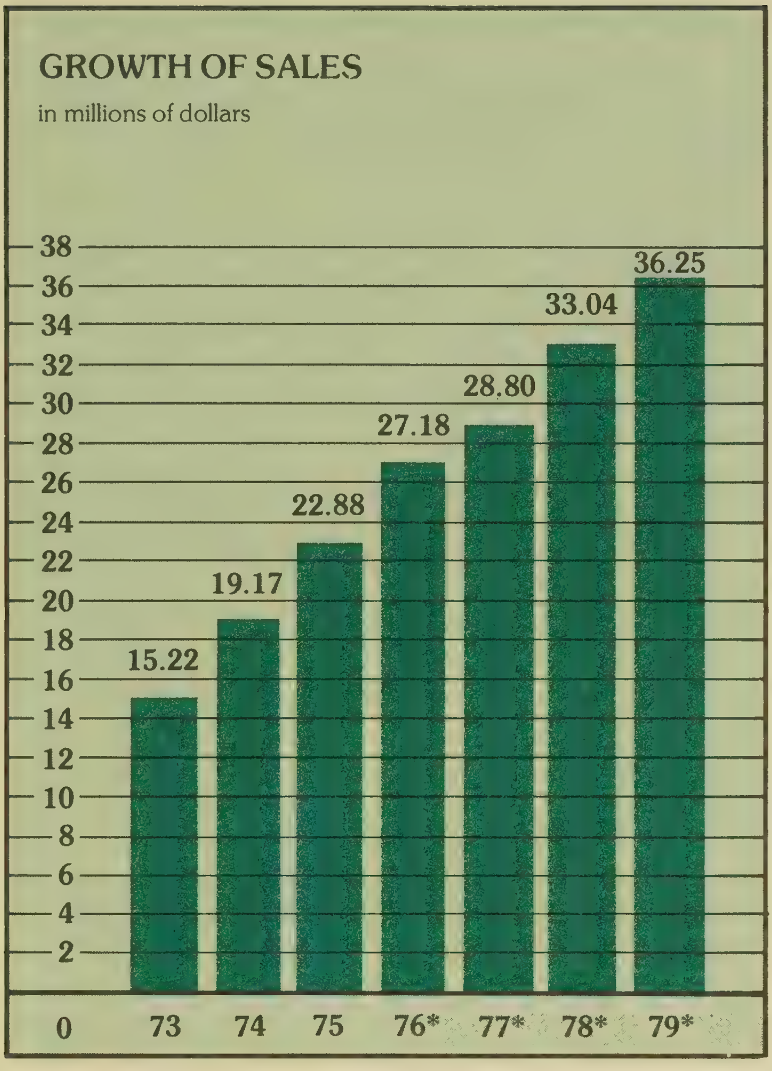
The corporation has entered into arrangements with four of its senior executives that on retirement of each, (but in no event before reaching the age of 65 years), such senior executive will provide consultation services for a maximum of ten years for an annual fee equal to sixty per cent of the average of his three highest years' earnings during the period of his full time employment. Two of these executives are now eligible for retirement, but are full time employees of the company.

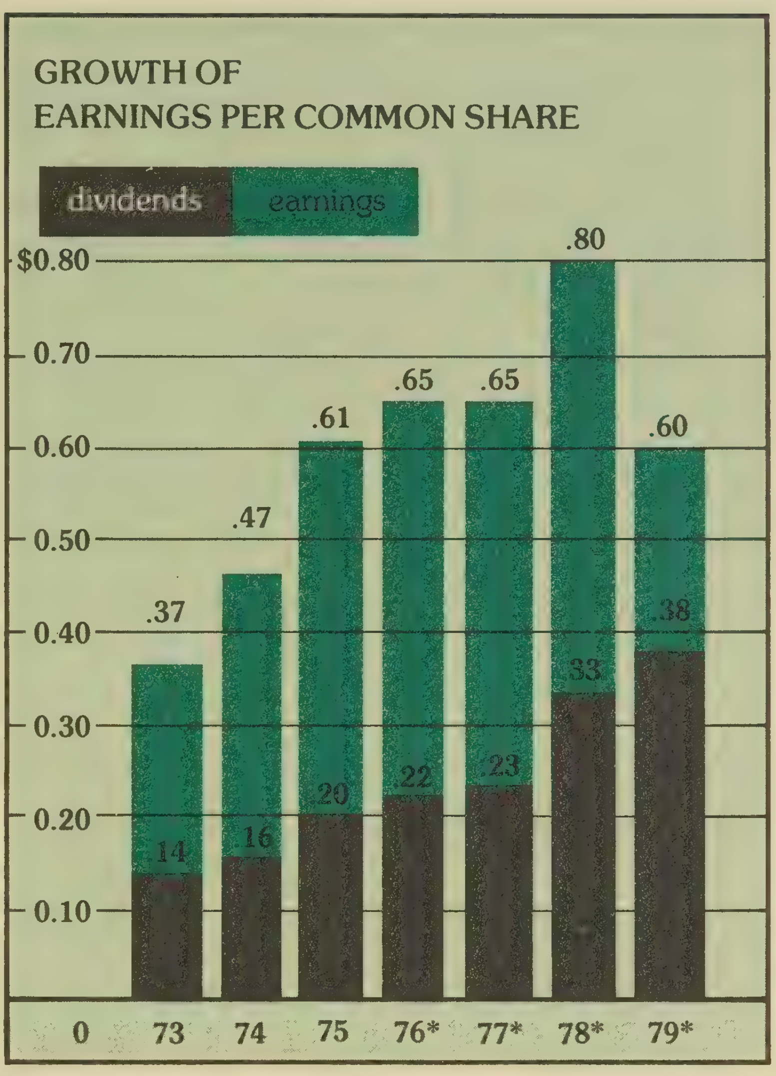
In addition, the corporation has also agreed to pay a retirement or death benefit in a lump sum to each such senior executive equal to three times the annual consultation fee as would be calculated as set out above to be paid on the earliest of death, termination of the consulting arrangement, or upon such senior executive becoming unable to provide further services to the corporation. The total unfunded liability related to these retirement and death benefit arrangements is approximately $639,000.

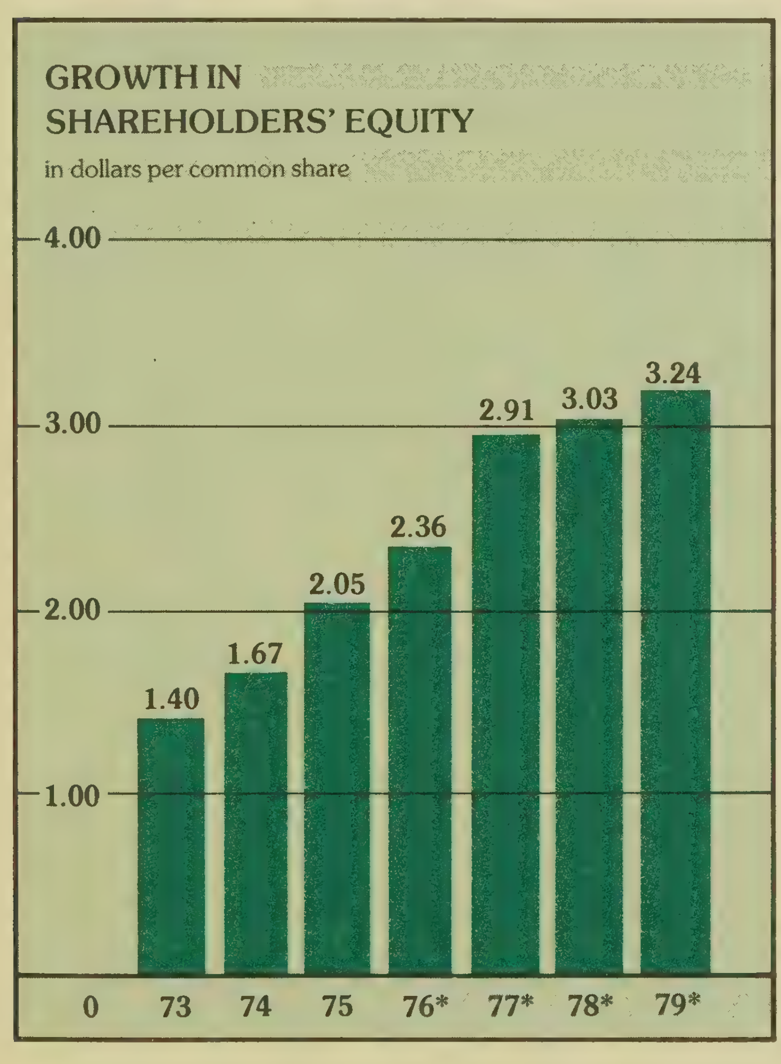
In accordance with the accounting policy set out in Note 1 (e) $36,000 has been charged to income during the current period (prior period $34,000).

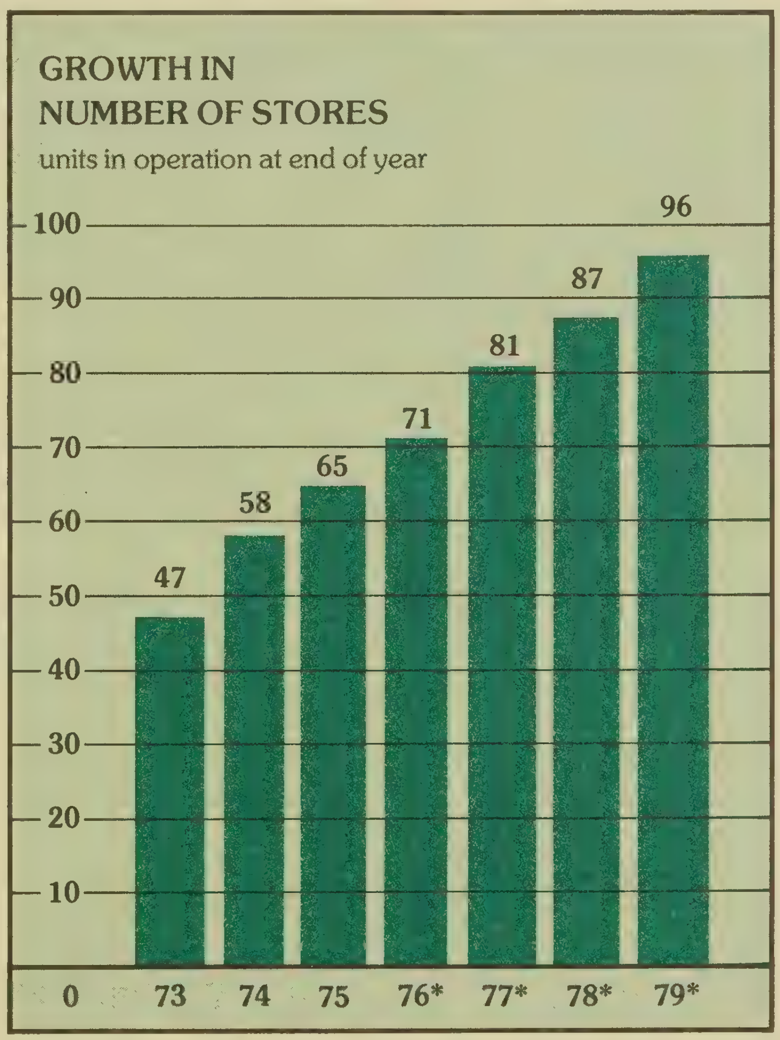
9. **Comparative balances:**

The comparative balances have been reclassified to conform with the presentation adopted for the current period.









*Year ended January following

Financial data for 1976 and 1977 has been adjusted to eliminate the distortions caused by the accounting for excess revenue relating to the application of the Anti-Inflation Act.

Historical Operating Review

YEAR END	FEBRUARY 2nd/80	FEBRUARY 3rd/79	JANUARY 28th/78
NUMBER OF WEEKS	**52**	53	52
SALES (thousands of dollars)			
1st quarter	**$ 7148**	$ 6489	$ 5779 (1)
2nd quarter	**9008**	8341	7057 (1)
3rd quarter	**9258**	8518	7303 (1)
4th quarter	**10831**	9689 (2)	8666
TOTAL	**$ 36245**	$ 33037	$ 28805
NET INCOME (thousands of dollars)			
1st quarter	**$ 377**	$ 450	$ 386 (1)
2nd quarter	**820**	800	696 (1)
3rd quarter	**583**	914	712 (1)
4th quarter	**865**	1120 (2)	851
TOTAL	**$ 2645**	$ 3284	$ 2645
EARNINGS PER COMMON SHARE (3)			
1st quarter	**$ .08**	$ .11	$ .10 (1)
2nd quarter	**.19**	.20	.17 (1)
3rd quarter	**.13**	.22	.17 (1)
4th quarter	**.20**	.27 (2)	.21
TOTAL	**$ .60**	$ .80	$ .65
DIVIDENDS PAID PER SHARE (3)	**$ .38**	$ .33	$ .23
RECORD OF COMMON STOCK PRICES (3)			
High	**8**	$ 7¼	$ 5⅛
Low	**5½**	4¾	3⅞
STORES BY REGION			
British Columbia	**11**	10	9
Alberta	**10**	9	8
Mid West	**9**	7	7
Ontario	**42**	40	37
Quebec	**13**	13	12
Maritimes	**8**	8	8
United States	**3**		
TOTAL	**96**	87	81

NOTES:

(1) Financial data for 1976 and 1977 has been adjusted to eliminate the distortions caused by the accounting for excess revenue relating to the application of the Anti-Inflation Act.

JANUARY 29th/77	JANUARY 3rd/76	DECEMBER 28th/74	DECEMBER 29th/73	DECEMBER 30th/72
56	53	52	52	52
$ 4176	$ 3706	$ 2880	$ 2525	$ 1756
6721	5971	5042	4148	3040
6093	5206	4451	3435	2791
10187 (1)	7999 (2)	6796	5108	4293
$ 27177	$ 22882	$ 19169	$ 15216	$ 11880
$ 200	$ 180	$ 105	$ 154	$ 96
675	591	518	419	317
450	471	334	280	273
1324 (1)	1233 (2)	921	627	525
$ 2649	$ 2475	$ 1878	$ 1480	$ 1211
$ .05	$ .04	$ .03	$ .04	$ .03
.16	.14	.13	.10	.08
.11	.12	.08	.07	.06
.33 (1)	.31 (2)	.23	.16	.13
$ .65	$ .61	$ .47	$ .37	$ .30
$ .22	$ .20	$ .16	$ .14	$ .10
$5\frac{1}{2}$	$5\frac{1}{2}$	$5\frac{1}{4}$	$6\frac{7}{8}$	6
$3\frac{3}{4}$	$2\frac{5}{8}$	$2\frac{1}{2}$	4	$2\frac{7}{8}$
9	9	7	6	5
7	6	4	4	4
5	5	4	3	3
33	30	29	23	15
12	12	11	9	8
5	3	3	2	1
71	65	58	47	36

(2) 14 week period

(3) Restated as to reflect capital reorganization

Store Locations

CANADA

BRITISH COLUMBIA

Abbotsford	Seven Oaks Shopping Centre
Kelowna	Orchard Park Shopping Centre
Nanaimo	Rutherford Village (Fall 1980)
Prince George	Pine Centre
Vancouver	Brentwood Mall, Burnaby
	Coquitlam Centre (Liz Porter)
	Guildford Town Centre, Surrey (Liz Porter)
	Pacific Centre
	Park Royal Shopping Centre
	Richmond Centre
	Surrey Place
Victoria	Hillside Shopping Centre

ALBERTA

Calgary	Chinook Centre
	Marlborough Mall
	Toronto Dominion Square
Edmonton	Edmonton Centre
	Londonderry Mall
	Shoppers' Park Westmount
	Southgate Shopping Centre
Lethbridge	Lethbridge Centre
Medicine Hat	Medicine Hat Mall
Red Deer	Parkland Mall

SASKATCHEWAN

Regina	Northgate Shopping Centre
	Southland Mall
Saskatoon	Midtown Plaza

MANITOBA

Winnipeg	Eaton Place
	Garden City Shopping Centre, W. Kildonan
	Kildonan Place (Fall 1980)
	Polo Park Shopping Centre
	St. Vital Shopping Centre
	Unicity Fashion Square
	215 McDermott Avenue

ONTARIO

Barrie	Georgian Mall
Belleville	Quinte Mall
Brantford	Lynden Park Mall
Burlington	Burlington Mall
Cornwall	Cornwall Square
Hamilton	Eastgate Square, Stoney Creek
	Greater Hamilton Shopping Centre
	Jackson Square
Kitchener	Market Square
London	Wellington Square Shopping Centre
Newmarket	Upper Canada Mall
Niagara Falls	Niagara Square Shopping Centre
North Bay	Northgate Shopping Centre(Fall 1980)
Oshawa	Oshawa Shopping Centre
Ottawa	Bayshore Shopping Centre
	St. Laurent Shopping Centre
	240 Sparks Street
Peterborough	Peterborough Square
Sault Ste. Marie	Station Mall
Sudbury	City Centre
	New Sudbury Shopping Centre
Thunder Bay	Keskus Mall
Timmins	Timmins Square
Toronto	Bramalea City Centre
	Eaton Centre
	Eaton Centre(Liz Porter)
	Fairview Mall
	Gerrard Square
	Lawrence Plaza
	Rexdale Plaza
	Scarborough Town Centre
	Sheridan Mall, Mississauga (Liz Porter)
	Sherway Gardens, Etobicoke
	Shoppers' World Brampton (Liz Porter)
	Shoppers' World Danforth
	Square One Shopping Centre, Mississauga
	Yorkdale Shopping Centre
	151 Bloor Street West
	1225 Dundas St. E., Mississauga
	1911 Eglinton Ave. E., Scarborough
	2850 Dundas Street West
	3711 Keele St., Downsview
Waterloo	Conestoga Mall
Windsor	Devonshire Mall
	Tecumseh Mall

QUEBEC

Hull	Les Galeries de Hull
Quebec City	Place Fleur de Lys
	Place Laurier, Ste. Foy
	Place Quebec
Montreal	Alexis Nihon Plaza
	Centre Laval
	Dorval Gardens Shopping Centre
	Le Carrefour Laval
	Les Galeries d'Anjou
	Les Promenades St. Bruno
	Place Vertu
	Place Ville Marie
Sherbrooke	Carrefour de l'Estrie
Trois Rivieres	Centre d'Achat les Rivieres

NEW BRUNSWICK

Fredericton	Regent Mall
Moncton	Champlain Place
St. John	Brunswick Square Fashion Centre

NOVA SCOTIA

Dartmouth	Micmac Mall
Halifax	Halifax Shopping Centre
	Scotia Square

NEWFOUNDLAND

St. John's	Atlantic Place
	Avalon Mall

UNITED STATES

ILLINOIS

Chicago	4	Hawthorn Center, Vernon Hills
	1	Northbrook Court
	5	Oakbrook Shopping Center
		Springhill Mall, West Dundee (Fall 1980) ✓
		Stratford Square, Bloomingdale (Spring 1981) ✓
	2	Water Tower Place

FLORIDA

Boca Raton	Town Center (Aug. 1980) ✓

MARYLAND

3	N. Bethesda	White Flint Mall (Washington area)

NEW YORK

White Plains	The Galleria (Aug. 1980) ✓

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